

CORPORATION COMMISSION of OKLAHOMA



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**TESTIMONY OF**

**CODY L. GRAVES**

**CHAIRMAN**

**OKLAHOMA CORPORATION COMMISSION**

**MAY 9, 1997**

**BEFORE THE HOUSE COMMERCE COMMITTEE**

**ENERGY AND POWER SUBCOMMITTEE**

**REGARDING**

**ELECTRIC UTILITY INDUSTRY RESTRUCTURING**

Mr. Chairman, I want to thank you for giving me the opportunity to address the Energy and Power Subcommittee today regarding electricity industry restructuring. I am Cody Graves, and I serve as chairman of the Oklahoma Corporation Commission. The Oklahoma Corporation Commission is a three-member panel elected statewide that regulates public utilities, oil and gas production and exploration and transportation in the state of Oklahoma. Additionally, I serve on the National Association of Regulatory Utility Commissioners Electricity Committee and the Consumer Energy Council of America Research Foundation's Electric Utility Restructuring Forum.

I am here today to discuss recent developments in electricity industry restructuring in Oklahoma. While many low cost states are waiting on federal legislation to develop a competitive marketplace in electricity, Oklahoma has decided to move forward decisively. Our legislature recently passed Senate Bill 500, the Electric Restructuring Act of 1997, introduced by Senator Kevin Easley, and on April 25, it was signed into law by Oklahoma Governor Frank Keating.

Our view of restructuring is centered around the fact that Oklahoma is a low cost state. When prices charged by electric providers are among the lowest in the nation, the issues driving restructuring are many times different from those found

in states where prices are much higher. We want to proceed but to proceed cautiously to ensure that all of our consumers are represented in the process.

More than two years ago the Oklahoma legislature created the Joint Electric Utility Task Force to examine restructuring issues. This Task Force revealed a multitude of issues that would require legislative and regulatory review before restructuring can become a reality.

As introduced, Senate Bill 500 called for full retail customer choice by January 1, 1999. Unfortunately in the eyes of many it did not give adequate time for the Corporation Commission, industry and most importantly consumers to develop a reasonable and responsible framework for the opening of electricity markets.

The final version of Senate Bill 500 passed by the Oklahoma legislature is a fair and equitable piece of legislation that will allow a competitive marketplace and retail choice in the electric industry.

The Oklahoma Act gives the Oklahoma Corporation Commission a clear mandate to move quickly over the next four years to develop a regulatory framework appropriate to allow for competition in the electric industry, The bill directs the Oklahoma Corporation Commission to study and propose both

regulatory and statutory changes to the legislature on how to best restructure the electric industry.

This Act recognizes that it will take some time to unwind the over 60 years of public policy that has resulted in our current electric industry. The magnitude of this legislation's impact on Oklahoma's economic future cannot be understated. The changes that will flow from this legislation will materially affect Oklahoma's economic prosperity well into the 21st Century.

When the original bill was reported from the Senate Energy and Environment Committee without amendments, many of the stakeholders expressed concerns about several provisions in the bill. The major concern was the issue of appropriate timing. Most believed that the original date for the implementation of customer choice, January 1, 1999, was too aggressive. The stakeholders wanted to further Senator Easley's goal of making Oklahoma a leader among low cost states, but wanted to provide a structured approach to deregulation that would preserve and hopefully enhance the low prices currently enjoyed by Oklahoma consumers of electricity.

The Act provides the mechanisms needed to ensure electric restructuring occurs in Oklahoma in a timely manner while safeguarding the current economic advantages we enjoy.

**The Oklahoma Corporation Commission and the Oklahoma Tax Commission will undertake five studies covering more than 40 restructuring issues. The studies will result in the development of the road map for restructuring in Oklahoma.**

**The first study regarding the creation of an independent system operator is the cornerstone for restructuring. Each subsequent study builds on that ISO cornerstone. The technical issues study will provide the regulatory and legislative solutions that will address system reliability, unbundling of generation, transmission and distribution and market power. The financial issues study will suggest solutions to issues such as stranded investment, access fees and utility financing. The consumer issues study will address such vital consumer protection issues as distribution service territories, the obligation to connect and licensing of retail electric energy suppliers.**

**The issue of tax equity will also be studied and solutions developed to make sure that Oklahoma's state, county and local government needs are continually met and that the Oklahoma electric customer is not inappropriately taxed for electric energy use. Under the Act, customer choice will not occur until tax parity is achieved.**

When restructuring is completed in Oklahoma on or before July 1, 2002, the necessary regulatory and legislative solutions will be in place to assure that all of our citizens will benefit from these efforts.

It is important to commend the author of S.B. 500, Senator Kevin Easley for considering the concerns of all parties and recognizing that improvements could be made to the original bill. He displayed excellent leadership in his ability to produce a compromise acceptable to all parties.

The time has come to embrace the principle of competitive restructuring. I support the concept of customer choice, and I believe we must have a reasonable transformation of our electric industry from one of monopoly regulation to one of competition. Restructuring the electricity industry will be valuable to all consumers in the long run if it is allowed to occur properly.

We must guard against the "one size fits all" approach that is all too often advocated at the federal level. To be sure there are appropriate areas for federal guidance and legislation. Primary among them is the issue of regional transmission policy. How should states work together to develop seamless regional markets? Additionally, Congress must consider the changes in RUS policies necessary to allow rural electric cooperatives to transition to competition. Also, Congress must address the current "private use" restrictions on public

finance proceeds that may prevent municipal electric systems from embracing competition.

It should be equally clear that Congress should not venture into the arena of fuel choice. If the intent is to replace economic regulation with market forces, then we must be willing to accept market choices different from our own. Let's not repeat the failures of the Fuel Use Act.

Similarly Congress should not become bogged down in the quagmire of stranded costs. What may be a reasonable, prudent and necessary expense in California may not be the same in New Hampshire. Those kind of fact specific decisions can best be made on the state level.

This is a critical time in the development of state and federal electricity restructuring policy. We each have our role to play and we must be respectful of one another. During this time of fundamental change in the electric utility industry, I am pleased to be a part of Chairman Schaefer's hearing process. I would like to commend the chairman for the tremendous effort he and his staff have expended to hold these field hearings. Change is never easy. However, by working together in a cooperative fashion I know that state and federal policy makers can, and hopefully will, make the right choices.